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Trade Finance in Crisis

Market Adjustment or Market Failure?

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Abstract

As world leaders have agreed to massively support trade finance, this paper discusses the singularity of the issues related to trade finance in the context of the global economic crisis. Why should international trade finance be a particular issue of concern in the current circumstances? Are there specific market or government failures associated with trade finance that justify a special and differential treatment of the issue by policymakers? If so, what would then be the most appropriate policy instruments to address those concerns? The paper cautions against the notion of a large trade finance "gap," yet highlights the possible rationales and conditions for an effective intervention in support of trade finance.

This paper—a product of the International Trade Department, Poverty Reduction and Economic Management Network—is part of a larger effort in the department to better understand the role of trade finance in the current global economic crisis. Policy Research Working Papers are also posted on the Web at http://econ.worldbank.org. The authors may be contacted at jchauffour@worldbank.org and tfarole@worldbank.org.

Trade Finance in Crisis:
Market Adjustment or Market Failure?

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Executive Summary

Along with the rapid decline in trade during the latter half of 2008, the financial crisis may have reduced the supply of trade finance, raising fears that the lack of trade finance may deepen and prolong the recession. Various estimates have put the size of a possible trade finance "gap" in the range of $25-500 billion. Governments and multilateral institutions have responded with a range of trade finance programs, including a pledge by the G20 leaders at their April 2009 London Summit to ensure $250 billion of support for trade finance.

Historically, trade finance has tended to be highly vulnerable in times of crisis, as was the case in East Asia in the late 1990s. Indeed, trade finance differs from other forms of credit, such as investment or working capital, in ways that make it higher risk—during periods of crisis—because of the difficulty of securing and enforcing credible commitments across borders in times of turmoil.

In the current crisis, it is clear that access to affordable trade finance has been constrained. A number of banks, global buyers, and firms surveyed by the World Bank are reporting to be constrained by lack of trade finance and other forms of finance, such as working capital and pre-export financing. In addition, the costs of trade finance are substantially higher than they were pre-crisis, raising the problem of affordability for exporters. SMEs and exporters in emerging markets appear to be facing the greatest difficulties in accessing affordable credit.

Yet, available information also suggest that trade finance is not down to nearly the same degree as actual trade flows. Data from the IMF indicate that trade volumes declined by about four times faster than trade finance volumes during the period October 2008 through January 2009. In short, while the contribution of trade finance to the massive decline in world trade should not be overestimated, there is evidence that a trade finance shortfall participated in the drop of international trade and risks hindering its eventual recovery.

A critical question is therefore whether the decline in the supply of trade finance is the result of market and/or government failures, and, hence, whether there is a rationale for public intervention to address them. Two broad cases that would create a real trade finance "gap" would be where there is insufficient supply (i.e., "missing markets") or where it is being supplied at prices that are temporarily too high to meet demand in the market (i.e., "overshooting markets").

Missing markets. There are a number of reasons why bank deleveraging and risk-adjustment processes in response to the financial crisis might restrict the supply of trade finance more than other forms of bank credit, despite the fact that trade finance should be a relatively low risk product line in normal times.

First, there may be a temporary inability of the market to properly calculate risk – in other words, not a problem of risk per se but uncertainty, which is particularly acute in opaque and highly internationalized markets like trade finance. Second, information asymmetries in international markets have been exacerbated by a collapse of interbank trust and a hoarding for cash, raising the risk of interbank strategic default. Third, with the liquidity crisis forcing banks to recapitalise as quickly as possible, trade finance credit lines – the majority of which have terms less than 180 days – tend to be the first lines of credit banks cut. Finally, there may be strong political economy factors at play. As much of the response to the crisis has taken place at the national level, through central banks and governments providing liquidity and insurance to domestic banks, there is likely to be strong political pressure and moral suasion to use these resources to support domestic lending.

Overshooting markets. The largest piece of the trade finance "gap" may result not from a lack of demand or supply, but of the two failing to meet – specifically, where the prices at which banks are willing to supply trade finance are temporarily too high to clear market demand. Again, there appear to be specific aspects of trade finance which may make it relatively more prone to this form of market failure, particularly during a financial crisis.

First, systematic recalibration of risk has essentially forced a downward shift in the supply curve for all kinds of credit. However, deflationary pressures in the real economy makes prices for most goods sticky, giving international traders little scope to pass on these costs. Changes in regulatory regimes (specifically Basel II) may also have raised the price of trade finance to a level that is out of line with its true risk profile, due to its calculation of counterparty risk through a geographic rather than a performance lens. Third, with markets undergoing a rapid process of risk recalibration, the adjustment process may overshoot the equilibrium temporarily.

A final rationale for intervention in support of trade finance lies in its potential multiplier effects. Strong interaction among bank-intermediated trade finance, other forms of bank credit, and inter-firm credit, means that banking sector shocks may trigger chain reactions in the trading sector, which resonates back to the banking sector, amplifying and prolonging the crisis. As no individual seller is likely to fully take into account the cross-supply chain gains of extending credit, there may be an insufficient provision of inter-firm trade credit along a supply chain. Intervention to support liquidity in the banking sector may therefore contribute to realizing these potential multipliers.

These failures – both market and government in nature – may require government interventions in the form of liquidity injection and risk mitigation to address market confidence, information provision, and collective action, as well as to manage the adjustment process. While the current economic crisis is still unfolding, a number of domestic and multilateral interventions have been launched that may or may not lead to the desired results.

Drawing on the lessons from past crises, effective public actions in support for trade finance should be guided by number of key principles. These include: (1) targeting interventions to address specific failures; (2) ensuring a holistic response that addresses the wider liquidity issues of banks; (3) channelling the response through existing mechanisms and institutions; (4) ensuring collective action in the response across countries and regions; (5) addressing both risk and liquidity issues; (6) recognizing the importance of banks in developed countries for freeing up trade finance for emerging market exporters; (7) promoting greater use of inter-firm credit and products like factoring; (8) maintaining a level playing field in terms of risk weight; (9) improving transparency in the trade finance market; and (10) avoiding moral hazard and crowding out commercial banks by setting clear time limits and exit strategies for intervention programs and sharing rather than fully underwriting risk.

1. Introduction

The global economic crisis has had a major detrimental impact on trade. As Pascal Lamy put it, "*today it is clear that trade is one of the casualties of this economic crisis and that we run the risk that one of the engines of growth — in fact, one that is very important for many developing countries — stalls*" (Lamy, 2009). While trade was still growing through the third quarter of 2008, volumes fell rapidly during the last quarter and the pace of decline accelerated in the first quarter of 2009. International trade is projected to decline in 2009—for the first time since 1982.[2]

This sharp contraction has been the result of both demand-side effects (through lower business and consumer wealth and confidence resulting in delayed or foregone investment and consumption) and supply-side effects (through various liquidity constraints curtailing trade and investment). In particular, on the supply side, there is strong anecdotal evidence that the financial crisis may have reduced the availability of trade finance, and hence the volume of trade that would have otherwise taken place – even in the face of the demand shock. Various estimates have put the size of this trade finance "gap" in the range of $25-500 billion.[3] This has raised serious concerns in many policy quarters and has led to calls for intervention to reduce the gap in order to avoid deepening and spreading the contagion. Governments and multilateral institutions have responded with a range of programs designed to support the trade finance market through increased liquidity and risk guarantees and insurance. Leaders of the G20 agreed to ensure $250 billion of support for trade finance at their April 2009 summit in London in order to promote global trade and investment.[4]

Yet the dearth of data on trade finance and lack of analytical tools mean that we have little idea how large this supposed trade finance "gap" really is. That bank-intermediated trade finance volumes are down significantly is not in question. Given the contraction in trade volumes, a lower demand for trade finance should be expected. The question is rather how much of the contraction in international trade may be caused by restrictions in the supply of trade finance and to what degree this represents a legitimate target for intervention. For intervention to be justified, at least three pre-conditions should be met. First, the scale of the supply gap should be of some significance. Second, the shortfall in the provision of trade finance should be attributable to a structural or temporary market failure. And third, it should be possible to design interventions that target the desired response by market participants (i.e., supplying trade credit at market-clearing prices) without creating unacceptable moral hazards or subsidizing the provision of credit that would have taken place in any case.

The purpose of this paper is to discuss these issues with a view to addressing the following questions: Is there a trade finance gap and, if so, what is its scale and nature? Is there a rationale for intervention to support trade finance? And what tools and policies are most fit for the purpose of addressing it?

[2] According to the World Bank's Global Economic Prospects (June 2009), the world trade volume in goods and services is projected to decline by 9.7 percent in 2009, with a significantly sharper contraction in trade volumes of manufactured goods.
[3] See, for example: WTO (2008); FIMetrix (2009); IFC Ltd. (2009)
[4] "We will ensure availability of at least $250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance." London Summit Communiqué, April 2, 2009.

The remainder of this paper will proceed as follows. Based on the most recent literature, Section 2 introduces the economics of trade finance, outlines what may be unique about it, and discusses its economic implications. Section 3 reviews briefly the nature of the current global crisis and its practical impacts on the trade finance market. Section 4 discusses the potential scale of the trade finance gap. Section 5 presents the possible rationales for intervention to support trade finance. To conclude, Section 6 reviews the policies and tools that have been used to support trade finance in the past and discusses which policies and tools are likely to be the most effective in addressing the specific problems of trade finance experienced in the current crisis.

2. The economics of trade finance

By providing critical fluidity and security to enable the movement of goods and services, trade finance lies at the heart of the global trading system (Auboin & Meier-Ewert, 2008). Some 80 to 90 percent of all trade transactions are said to be financed.[5] Trade finance mechanisms exist to support two fundamental aspects of the trading process*: risk mitigation* and *liquidity*.

- *Risk mitigation*: Any economic exchange involves an element of risk, principally that the seller will fail to deliver the goods or services as agreed or that the buyer will fail to pay or to accept the goods or services. In an international trading environment these risks are heightened by such factors as macroeconomic volatility, political risk, information asymmetry, and moral hazard. As a result, traders require facilities which mitigate and/or compensate for these risks.
- *Liquidity*: Suppliers normally face a gap in time between when they incur production costs and when they receive payment from the buyer. This creates a liquidity gap, which is often made greater by payment terms that grant buyers a period of days or weeks in which to make payment. In an international trading environment, this time period tends to be extended still further due to the relatively longer time required for products to reach their markets. Firms typically require access to credit to offset this liquidity gap.

The vast majority of trade finance involves credit extended bilaterally between firms in a supply chain or between different units of individual firms.[6] Banks also play a central role in facilitating trade, both through the provision of finance and bonding facilities and through the establishment and management of payment mechanisms such as telegraphic transfers and documentary letters of credit (L/Cs). Complementing the activities of the banks are the following entities:

- *Export Credit Agencies (ECAs)*: ECAs are quasi-governmental agencies that generally provide cover – including partial or comprehensive insurance and guarantees – to offset counterparty risk. In most cases, ECAs do not provide direct funding to traders but rather complement the role of banks by guaranteeing the trade financing they provide to exporters.

[5] Although this range of 80-90 percent is widely reported, the source and evidence for the claim is unclear.
[6] According to messaging data from SWIFT, approximately 90 percent of trade finance occurs through inter-firm, 'open-account' exchange. Estimates from FImetrix (2009) suggest that 10-20 percent of trade finance is composed of cash-in-advance payments (these mainly involve SME buyers, and inordinately in developing countries); 45-80 percent is on open account (of which 30-40 percent is intra-firm), and 10-35 percent is bank intermediated.

- *Private insurers*: Private insurers have recently played an increasingly important role in the market as providers of trade credit insurance, political risk insurance, and bonding facilities. Their involvement in providing short-term credit insurance is substantially greater than that of ECAs in all OECD countries, with the exception of Japan and Canada. Exporters typically use insurance policies as collateral to unlock working capital or accounts receivables; banks also often hold insurance policies on their L/C business lines.
- *Multilateral Development Banks (MDBs)*: The World Bank/IFC and a number of regional development banks (i.e., the ADB, EBRD, and IDB) operate formal trade facilitation programs designed to support their member countries. These programs extend and complement the capacity of banks, including developing country banks, to deliver trade financing by providing risk mitigation (by issuing guarantees) in new or challenging markets where trade lines may be constrained. The programs work exclusively with banks; however all are specifically targeted at small- and medium-size enterprises (SMEs) customers with no minimum transaction size.

Appendix 1 outlines the main products typically included in discussions of trade finance. These range from inter-firm credit to traditional forms of bank-provided credit (for liquidity and investment) to specific products aimed at mitigating the risks and addressing the liquidity gaps inherent in trade. Among the intermediated trade finance products, the most commonly used for financing transactions are L/Cs, whereby the importer and exporter essentially entrust the exchange process (i.e., payment against agreed delivery) to their respective banks in order to mitigate counterparty risk.

In the remainder of this paper, we will focus on inter-firm trade credit and bank-intermediated payment mechanisms and risk products. We exclude the more generic bank-intermediated credit products like investment and working capital as they are not necessarily tied directly to international trade transactions. Indeed, for investment capital and working capital, there is no clear distinction between products supporting international traders (i.e., exporters and importers) and firms operating solely in domestic markets. Reductions in the supply or significant increases in the cost of this type of financing will, of course, have a dampening effect on trade both through direct effects on output and second-round effects on demand, which will in turn reduce the *demand* for trade finance. Moreover, as most exporters operating on open account finance their working capital through retained earnings, the longer trade levels remained depressed, the more these reserves will become depleted, possibly forcing exporters to seek more formal bank financing.

Trade finance differs from other forms of credit (e.g., investment and working capital) in several ways, which may have important economic consequences during periods of financial crisis. As noted above, perhaps its most distinguishing characteristic is that it is offered and obtained not only through third party financial institutions but also through inter-firm transactions. While traditional economic theory assumes that obtaining financing through suppliers would only be pursued where a company was constrained in their access to bank credit (due to the high implicit cost of inter-firm trade credit), most empirical evidence suggests otherwise (Petersen & Raghuram, 1997).

That inter-firm trade finance is so prevalent is typically explained by certain features that enable trade partners to better assess and mitigate risk than third parties. The first of these is an *informational advantage* – it is perceived that trade partners should be in better position to assess the risk of non-performance, non-payment, or strategic default than banks, particularly where trading relationships have already been established. However, evidence on the extension of credit depending on the nature of products and services traded and on the market power of suppliers and buyers suggests that the informational advantage hypothesis may have only limited explanatory power (Giannetti, Burkart, & Ellingsen, 2007; Fabbri & Klapper, 2009). The second advantage is one of trust, or more specifically of e*ncapsulated interest*. Suppliers may be more willing to extend credit to a buyer than would be a bank as they have a greater interest in ensuring that the buyer stay in business and can continue to purchase from them in the future. The buyer, for their part, is less likely to engage in strategic default with a supplier of trade credit than with a bank, because they may rely on that supplier for critical inputs in the future (Giannetti, Burkart, & Ellingsen, 2007).

Of course, trading firms are not in the business of financing. They offer credit in order to enhance the competitiveness of their core product or service offering. As such, a rational firm will only extend credit on terms that allow it to maximize the profits of its core offering. As a result, market power should matter in the decision to extend or receive inter-firm trade finance. Suppliers facing little competition due to industry structure or the differentiated nature of their offering should be expected to extend less credit; similarly powerful suppliers should be expected to demand more favorable credit terms. Recent research shows that firms with less market power do indeed extend more credit (Fabbri & Klapper, 2009), and that a customer that generates a large share of its supplier's profits tends to have more credit extended to them (Giannetti, Burkart, & Ellingsen, 2007). On the other hand, Giannetti, Burkart, & Ellingsen (2007) also find that suppliers of services, which tend to be highly differentiated, extend more credit than suppliers of standardized goods. This may be due to the fact that services are almost impossible to divert and thus present no "moral hazard", thereby limiting the risk of strategic default. In any case, this means that emerging market exporters, which are normally relatively small and more often sell standardized products, are likely to be forced to extend favorable credit terms while being less able to demand similar terms of their input suppliers.

Relative to a standard credit line or working capital loan, trade finance – whether offered through banks or within the supply chain – is relatively illiquid, which means that it cannot easily be diverted for another purpose. It is also highly collateralized – credit and insurance are provided directly against the sale of specific products or services whose value can, by and large, be calculated and secured.[7] This suggests that the risk of strategic default on trade finance should be relatively low, as should be the scale of loss in the event of default. In the specific case of supplier-extended credit, the risk of trade finance should be even lower. Buyers are less likely to default on supplier-extended credit simply because it is less able to be diverted to other uses than bank credit (which is somewhat more liquid). In other words, the "moral hazard" is greater in the case of bank financing. In the event of non-payment, the supplier is likely to be in a position to obtain greater value from liquidizing the collateralized asset (i.e., the goods being traded) than would a bank. In both cases, the nature of the product being traded is important – the more differentiated the product the less it poses a moral hazard to buyers (Giannetti, Burkart, & Ellingsen, 2007) and the greater the relative liquidation advantage that would accrue to a supplier over a bank (Fabbri & Menichini, 2009).

[7] This is of course not true in all cases. Specific problems occur with products that are perishable (i.e., whose value erodes quickly or immediately), that are extremely differentiated (i.e., where there is little or no market value outside the intended buyer), and for services (which are not generally able to be collateralized).

Other unique aspects of trade finance, however, may imply greater potential risk, the most obvious being its exclusively international context. Cross border trades face *macro-level risks* which could impact the value of return (e.g., exchange rate fluctuations, changes to policy) and the likelihood of default (e.g., conflict, political upheaval). In addition, they face specific *counterparty risks* linked to the greater difficulty of enforcement across borders, exacerbated in many developing countries by poorly functioning institutions, particularly legal systems (Menichini, 2009). Weak cross-border enforcement raises the risk of strategic default on the part of suppliers, creating a problem of "credible commitment" across borders (Ellingsen & Vlachos, 2009). Finally, the cross-border nature of trade financing means that data on which to assess counterparty credit risk is often limited or non-existent (e.g., where there limited public credit registry coverage or public access to accounts or court proceedings). These risks may be compounded in the case of supplier-extended credit, by the fact that most suppliers operate in "credit chains" – i.e., firms which extend credit to their suppliers in turn have credit extended to them from their suppliers. Inter-firm credit through these chains provides critical working capital to facilitate production and trade. However, they are vulnerable to shocks as they can quickly propagate problems across the chain (Kiyotaki & Moore, 1997; Raddatz, 2008), contributing to systemic risk. This may be particularly acute with the extension in the length and scope of credit chains that has resulted from the recent growth of global production networks (Escaith and Gonguet, 2009).

3. The impact of the financial crisis on trade finance

It has become clear that the global economic crisis has many culprits, among which are: a prolonged period of loose monetary conditions in the US, various regulatory failures, a policy-induced mortgage crash in the US, the growth of "shadow banking" and the use of every-more complex financial instruments, and greed and herd-like behavior by investors. The subsequent collapse in confidence in the banking sector can be seen most clearly in the spread of Libor (the interbank reference rate) over T-bills (US Government Treasury bills) in the period that followed the collapse of Lehman Brothers. This spread – which historically was in the range of 10-30 basis points – rose dramatically to over 400 basis points in the second half of 2008. Large-scale government intervention has since brought these spreads down, but they continue to trade at levels well above historical averages.

Although trade finance has neither been a proximate nor ultimate cause of the financial crisis, it quickly became a collateral damage. As the financial crisis unfolded, the availability of trade finance tightened and its cost rose because of growing liquidity pressure in mature markets and a perception of heightened country and counterparty risks. The contraction in trade finance was also fuelled by the loss of critical market participants, such as Lehman Brothers, a drying up of the secondary market for short-term exposure (as banks and other financial institutions deleveraged), and the volatility of commodity prices.[8] The implementation of the Basel II Accord on banking laws and regulations, with its increased risk sensitivity of capital requirements, in an environment of global recession is also generally considered to have put additional pressure on banks to hold back on trade finance. Regardless of the impact of Basel II, as companies have been downgraded, higher risk premiums have increased capital requirements, further reducing access to trade credit, especially for SMEs and banks in emerging markets.

[8] The secondary market plays a key role in helping banks undertake transactions that are larger than their current credit and cross-border limits.

4. Evidence of a trade finance “gap”?

Trade finance has tended to be highly vulnerable in times of crisis. For instance, trade finance to developing countries collapsed during the 1997–98 East Asian financial crisis. Bank-financed trade credits declined by about 50 percent and 80 percent in the Republic of Korea and Indonesia, respectively, in 1997–98. In Indonesia, for instance, Auboin and Meier-Ewert (2008) report that, at the peak of the crisis, "cross border" international trade finance for imports became a particular problem, where international banks reportedly refused to confirm or underwrite L/Cs opened by local banks because of a general loss of confidence in the local banking system. Given the high import content of exports (over 40 percent in the manufacturing sector), Indonesia's growth of exports was seriously affected by the difficulty of financing imported raw materials, spare parts and capital equipment used in its export sectors. The financing of exports became an issue for enterprises which bear the exchange rate risk or the risk of non-payment from their clients. Argentina and Brazil found themselves in similar situations during the 2001–02 crisis episodes, as trade credits declined by as much as 30–50 percent (Allen, 2003). Liquidity and solvency problems encountered by the local banking systems made it difficult for local producers to get pre- and post shipment finance, open L/Cs, or obtain advance payment bonds and other forms of "domestic" trade finance.

With no comprehensive and reliable data on trade finance available, an overall assessment of trade finance developments in 2008-09 remains difficult. Historical precedents and selected information indicates that – along with global demand – trade finance flows declined in the last quarter of 2008. According to Dealogic, “structured” medium- and long-term trade finance instruments (such as syndicated loans) contracted by about 40 percent in the last quarter of 2008 compared with 2007.[9] While structured trade finance represents only a fraction of medium- and long-term global trade finance, it appears to be indicative of a broader trend. On short-term trade finance, data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) indicate that the number of trade finance messages declined by 4.8 percent in December 2008, compared with the same period in 2007. This covers collection and cash letters as well as documentary credits and guarantees.

The IMF/BAFT survey of global banks (FImetrix 2009) indicates that 71 percent of banks reported a decline in the value of their L/C business, with an overall 8 percent decline in the year to October 2008 (versus 2007), accelerating to 11 percent during the period October 2008 to January 2009. This was significantly greater than the declines for export credit insurance and short-term export credit working capital (4 percent and 3 percent respectively in the latest quarter). While 73 percent of banks recognized the role of falling trade demand on the decline in trade finance lines, more than half also attributed to a decline in available credit (i.e., a decline in supply). Overall, as can be seen in the table below, the IMF estimates that the decline in the value of trade finance transactions has been far less than the decline in export value in the period October 2008 through January 2009.

[9] In total only 116 trade finance loans (excluding aircraft and shipping) were signed in the last quarter, the lowest quarterly count since 2004.

Value of trade transactions

% change, January 2009 v October 2008		
	Trade finance	Exports
Industrialized	-9%	-26%
Latin America	-9%	-45%
Central Europe	-11%	-40%
Eastern Europe	-13%	-55%
Middle East/Maghreb	-5%	-26%
Emerging E. Asia	-10%	-37%
South Asia	-9%	-13%
Sub-Saharan Africa	-8%	--

In a World Bank survey of 60 global buyers and suppliers in early 2009, 40 percent of companies indicated that foreign sales have been delayed or cancelled due to drops in new orders and 30 percent due to difficulties in obtaining trade finance (Arvis & Shakya, 2009). Findings from two other World Bank surveys of 400 firms and some 80 banks in 14 developing countries across five regions[10] indicate that although a drop in demand played a central role in explaining the decrease in trade finance flows, 30 percent of firms, especially SMEs, stated that lack of finance on buyer's or company's part to explain the decline in exports (Malouche, 2009). Evidence of liquidity pressure on trade finance has also been reported by the banks participating in the IFC's Global Trade Finance Program. Major international banks participating in the program have been unwilling to assume a portion of the risk in a particular transaction, leaving the underlying risk to the IFC alone.

Firms most affected are generally highly exposed to the international financial market (e.g., Brazil); SMEs that are being crowded out by large firms in accessing trade finance (e.g., Chile, Philippines); and firms that are highly integrated in global supply chains (e.g., Tunisia, Turkey, India, Indonesia). Firms that are least affected are those in low-income countries with underdeveloped domestic banking system, especially in Sub-Saharan Africa (e.g., Ghana). These developments are consistent with the data released by the Berne Union of export credit and investment insurance agencies, which indicate that, in the last quarter of 2008, new insurance commitments increased strongly for high-income countries and decreased for developing countries. However, the World Bank survey indicates that the biggest financing constraint – particularly for SMEs and firms operating in global supply chains (which generally work through open account methods) – is not access to trade credit (e.g. L/Cs) per se, but rather *pre-export finance*. It is here where banks have become particularly stringent in their risk evaluation, particularly with regard to emerging market participants and SMEs. As exporters who normally self-finance are forced by the crisis to seek additional liquidity, this may become the most important inflection point of the trade finance "gap".

Perhaps more important than supply alone, the price of trade finance and the need for securing transactions through guarantees and insurance have increased markedly. Tight credit conditions have allowed lenders to drive up interest rates for their loans in many countries, especially in emerging markets. When banks are under pressure, the capital needed for trade finance may be allocated elsewhere on balance sheets. With no secondary market to offload loans, balance sheets have been constrained. In addition, global currency volatility and more

[10] Indonesia and the Philippines; Turkey and Ukraine; Brazil, Chile and Peru; Egypt and Tunisia; India; and Ghana, Kenya, Sierra Leone, and South Africa.

rigorous counterparty risk assessment contributed to higher cost of trade finance for importers, exporters, and financial intermediaries. By the end of 2008, trade finance deals were offered at 300–400 basis points over interbank refinance rates – two to three times more than the rate a year earlier. The cost of L/Cs was reported to have doubled or tripled for buyers in emerging countries, including Argentina, Bangladesh, China, Pakistan, and Turkey. This was confirmed in the IMF/BAFT survey, which found widespread increases in pricing of all trade finance instruments relative to banks' costs of funds. More than 70 percent of respondents indicated that the price of various types of L/Cs increased because of an increase in their own institution's cost of funds (80 percent of respondents), an increase in capital requirements (60 percent of respondents), or both. The survey indicates that the cost of trade finance instruments increased at an accelerating rate during the quarter October 2008-January 2009, while during the same period, the margin growth on short and medium term lending began to slow down. This seems to suggest a systematic reappraisal of trade finance risk and with it both a decline in the available supply of trade credit and an increase in its price (possibly to a level that cannot be supported by exporters).

Finally, in a recent attempt to disentangle the effects of trade finance from demand shocks using disaggregated bilateral import and export data from the US, Germany and Japan, Freund and Klapper (2009) show that trade in industries more dependent on inter-firm financing with countries more exposed to the crisis has not been affected more than overall trade. This suggests that trade finance has not been more adversely impacted than other types of financing that firms rely on. However, they also find some evidence that, in countries more affected by the crisis, trade in industries that are more dependent on short-term financing, broadly defined, has fallen more sharply. This implies that financial needs have played a role in affecting trade patterns during the crisis. However, the results do not necessarily suggest that trade finance has constrained overall trade growth; rather there has been a substitution away from firms in the most affected countries toward firms in less affected countries in industries with high financial dependence.

These findings reflect the fact that bank-intermediated trade finance is only a very small part of the story. In most cases, exporters are extending credit within the supply chain with payments made on open account and funding working capital / pre-export finance through retained earnings. This means that firms for the most part have actually not been as badly constrained by trade finance as one may have anticipated. Yet, the massive drop in export orders over September 2008-March 2009 means that the internal liquidity of these firms is likely to have dried up. So as trade starts to pick up again, firms that normally self-financed may need to seek a line of credit (working capital / pre-export financing) from banks. And the evidence from the surveys seems to suggest that this type of financing (rather than necessarily L/Cs and other guarantees) is where banks are becoming more selective and imposing adverse conditions (more collateral required and higher interest rates), particularly on SMEs. So while the interbank crisis of confidence may be over, there is still danger of a second-round effect that could constrain trade and hinder the recovery.

5. Is there a rationale for intervention to address a trade finance "gap"?

Although it is difficult to assess the nature and quantify the scale of a trade finance "gap", what is clear is that trade finance volumes have not only declined significantly in nominal terms, but that they seem to have declined more than other forms of credit and perhaps more than what should be expected based on market fundamentals. A critical question is whether this is the result of market and/or government failures, and therefore whether there is a rationale for intervention or correction to address them.

A precondition for answering this question is to understand what a trade finance gap is and what could contribute to its existence. First, a decline in *demand* for trade finance cannot constitute a gap. A drop in trade finance could simply be the consequence of declining trade volumes, as long as these trade declines did not derive wholly and directly from *trade finance* constraints. Second, problems with trade finance supply must be distinguished from problems with the provision of other forms of credit. If, for example, a South African exporter cannot obtain a loan to purchase a new piece of capital equipment as a result of the seizing up of credit markets and/or a recalibration of market-level risk, this is likely to have a dampening effect on trade. However, it suggests a problem with credit markets more generally and not necessarily one of trade finance per se. In fact, the uncertainty brought about by the crisis might actually result in an *increase in demand* for trade finance (at pre-existing price levels), as trading partners resort to more formal, bank-intermediated instruments in order to reduce the higher expected probability of default in open account trade.[11] Indeed, in the recent ICC Survey (ICC, 2009) 48 percent of banks indicated they had experienced an increase in demand for issuance of bank undertakings between the last quarter of 2007 and the last quarter of 2008 (despite stagnant trade volumes). These developments are consistent with the data released by the Berne Union of export credit and investment insurance agencies, which indicate that, in the last quarter of 2008, total new insurance commitments have fallen by much less (7 percent) than trade volumes (20 percent), with medium and long-term commitments remaining constant in volume.

A real "gap" would therefore only emerge in a situation in which the supply of trade finance is insufficient to clear markets either because it is not being supplied at all (i.e., "*missing markets*") or at prices that are temporary too high to meet demand in the market (i.e., "*overshooting markets*"). The first scenario corresponds to a decline in the supply of trade finance (at any price) despite the existence of demand; while the second scenario is that of a supply of trade finance at prices that firms are temporarily unwilling or unable to pay. Both scenarios suggest a real "gap", which would result in deadweight loss for the economy. In these cases, intervention may be required.

"Missing markets": insufficient supply of trade finance

While trade finance transactions are dispersed globally, overall volumes are highly concentrated in a few major international banks, several of which (e.g. Lehman Brothers) went under in the latter part of 2008. Their business would be expected to be reallocated relatively quickly among other suppliers, at least in an efficiently functioning market. However, the severe liquidity constraints and a collective collapse of confidence may, in the short term, mean that alternative banks were unable or unwilling to take on this business. Thus, there might well be a need for some transitory intervention to address this supply gap in the market. In addition, the poor risk management practices of banks like Lehman Brothers may have had negative reputational effects on their customers seeking to find alternative trade credit lines in the wake of their collapse. Thus, customers may be facing a market sanction that has little to do with their individual risk profile. Such situations are a common motive for government intervention in many markets, including insurance and credit.

[11] The economic crisis would be expected to threaten the viability of firms across supply chains and so would raise the overall probability of default in any inter-firm financed exchange.

There are a number of reasons why bank deleveraging and risk-adjustment processes in response to the financial crisis might unfairly restrict the supply of trade finance more than other forms of bank credit, despite the fact that trade finance should be a relatively low risk product line.[12] If banks took a strategic decision to deleverage across the board, the relative supply of trade financing (in relation to previous periods) would be expected to fall. But its share of overall credit should remain broadly the same. Thus, a financial crisis should not necessarily alter the balance – i.e., banks should not be expected to offer less trade finance relative to other lines of credit – *unless* banks are systematically treating trade finance differently. But, as discussed previously, trade finance has traditionally been among the least risky lines of credit and insurance. If this is the case, by choosing to not adequately supply the trade finance market, banks are failing to maximize profits. Why might banks leave money on the table?

Part of the problem may lie in the temporary inability of the market to properly calculate the risks – in other words, it is not a problem of risk per se but *uncertainty*.[13] Uncertainty plagues trade finance (at least bank-intermediated trade finance) because of the number and nature of the parties involved – for example in the case of L/Cs the bank is reliant on three parties, two of which are located in foreign countries. [14] This may not have been perceived as a problem when banks were well capitalized and profits high. However, there is evidence to suggest that the current economic crisis has resulted in a systematic recalibration of international risk relative to domestic risk. This stems both from real perceptions of higher macro-level risks as well as a herd-like "flight to safety" that works against international transactions.

Unique to this crisis is that it is not just developed country banks lacking confidence in their developing country counterparts, but also the other way round. This collective lack of confidence within the banking system may have squeezed trade finance customers more so than customers of traditional lines of credit because the most common forms of bank-intermediated trade finance, such as L/Cs, rely on *interbank* payments. This is particularly problematic for exporters in developing countries, who often lack access to other guarantees (e.g., through ECAs and Eximbanks) to cover the risks of non-payment from developed country importers. The problem of inter-bank trust suggests a need for intervention – at the very least in emerging markets – either through the use of guarantees to restore confidence or through the imposition of institutions to ensure transparency and enforcement.

Information asymmetries in international markets, particularly acute in trade finance due to lack of transparency (Allen, 2003; Auboin & Meier-Ewert, 2008), contribute to the uncertainty problem.[15] In the best of times such information problems raise the risk of adverse selection. But as Ellingsen and Vlachos (2009) point out, the problem of ensuring a "credible commitment" from borrowers becomes more severe in a liquidity crisis due to the increased incentive to hoard cash. Extending their argument to the current crisis – characterized by large lending spreads and low returns for most private investors – banks may react by substantially reducing the availability of trade credit and diverting it to credit lines in

[12] Bank deleveraging and risk-adjustment is not in itself a reason for intervention. Indeed, it is a critical process to restore stability and confidence in the financial system over the medium and long-term.
[13] Here we refer to Knight's (1921) classic distinction between risk - i.e. where the probability of an outcome can be calculated mathematically - and uncertainty- i.e. where the probability of an outcome cannot be calculated (and so cannot be insured against).
[14] The customer, the trade partner, and the partner's bank
[15] It is often difficult to get reliable information on the balance sheet of a foreign company – especially an SME – or a foreign bank

which the counterparty's incentive to hoard cash is relatively lower. Thus the risk of strategic default is high, particularly so if there is less trust between banks operating across borders. This "moral hazard", might be contained through intervention aimed at reducing the incentives to divert credit for other purposes.

The short-term nature of trade finance is also an issue. With the liquidity crisis forcing banks to recapitalize as quickly as possible, trade finance credit lines – the majority of which have terms less than 180 days – are relatively easy to call in and so tend to be the first lines of credit banks cut. Indeed, in a liquidity crisis it may be rational for banks to forego profitable lending in order to protect liquidity – i.e., the value of assets (cash) today may be greater than the value of a profits tomorrow. This may be especially true in the case of trade finance where profit margins are historically low. While banks may maximize their own gains by choosing liquidity over loans, in doing so they may fail to take into account the wider benefits to their customers in terms of increased productivity and improved liquidity, and their subsequent spillovers to firms down the supply chain. [16]

Finally, there may be strong political-economy factors which contribute to the insufficient supply of trade finance during the financial crisis. As much of the response to the crisis has taken place at the national level, through central banks providing liquidity to domestic banks, there is likely to be strong political pressure and moral suasion to use these funds to support domestic lending. Informal requirements for lending locally have been introduced in several countries. In the case of trade finance, funds made available to banks in Country A would generally be used to support the transactions of buyers in Country A, with the principal beneficiary being the seller in Country B. Despite the global benefits, in any individual country there is likely to be little political will to supply funds for such a purpose. Actually, the state interventions necessitated by the financial crisis have had international repercussions, most notably when governments extend guarantees to financial intermediaries – that distorts capital flows, and through capital and other support measures – than often favor national institutions and have a bias towards local lending and local interest (Claessens, 2009). Interventions do create distortions, not only domestically but also across borders, leading to various competition effects across segments of the credit system. This suggests the possible need for intervention to re-establish the level playing field and support collective action in this regard.

Finally, in the case of inter-firm trade finance, there may also be situation of "missing markets". When firms decide to hold back on extending credit for fear of default, buyers would be forced to pile into the formal, bank-intermediated market. Similarly, as retained earnings that normally fund pre-export working capital dry up in the face of the recession, exporters may be forced to seek extended bank credit lines. This could really exacerbate the gap between market demand and supply of trade finance.

"Overshooting markets": supply and demand not clearing

The largest piece of the trade finance "gap" may result not from a lack of demand or supply, but of the two failing to meet – specifically, where the prices at which banks are willing to supply trade finance are too high to clear market demand. Again, there appear to be specific aspects of trade finance which may make it relatively more prone to this form of market failure, particularly during a financial crisis.

[16] This may be particularly relevant during a recessionary period when spare capacity is likely to be high.

In this case, the market failure may be linked to synchronous price rigidities affecting trade finance suppliers and their customers. On the supply side, systematic recalibration of risk has essentially forced a downward shift in the supply curve for all kinds of credit. The short-term collapse of confidence and the resultant high costs of finance (i.e., the large spreads on interbank lending) both elevate the price floor for lending and make it more rigid. As discussed previously, banks may have an incentive to hoard cash rather than lend during a liquidity crisis. But why are traders not willing to take on the higher costs of credit? If risks were simply adjusting to new market realities, its cost should at least in part be passed on to their customers. Here price rigidities may come into play. The current economic crisis appears to be bringing with it strong deflationary pressure. As a result, market prices for most goods are sticky, giving traders little scope to pass on these costs. Many parts of the developed world are already experiencing sharp contractions in inflation and there are fears of structural changes in consumption, with long-term deflationary impacts like that experienced in Japan over the past twenty years. As a result, market prices for most goods are sticky, with pressure downward if anything; thus, there appears to be little scope for traders to pass on the higher costs of trade finance. In the short term, traders may absorb these additional costs fully in order maintain existing business; however, if prices remain sticky they are unlikely to be able to maintain this in the medium term. This suggests that the problem of market clearing may yet become worse if risk premiums keep the cost of trade finance high. Finally, it may be worth noting that given the highly collateralized nature of trade finance, these same deflationary pressures may also contribute to the level and rigidity of trade credit prices, as banks may adjust downward their calculations of the liquidization value of the assets collateralized through trade loans.

Changes in regulatory regimes may also temporarily affect the efficient functioning of markets – specifically setting the floor price above that which would clear the market. There is some evidence to suggest that the implementation of Basel II may be having just such an effect on the market for trade finance by exacerbating the tendency toward geographical deleveraging. Major international banks have recently criticized Basel II not only for restraining credit during a time where liquidity is already a problem, but specifically for treating trade finance in a way that essentially imposes an excessive capital “tax” on trade (D'Hulster & Stephanou, 2009). Basel II aims to increase the risk sensitivity of the minimum regulatory capital requirements of banks. While it is not specific to trade finance per se, the way in which Basel II characterizes risk (i.e., focusing on counterparty risk – normally proxied simply by country risk – rather than performance risk), penalizes trade finance as the risk premiums on international transactions tend to be relatively high, despite the low performance risk of trade finance. The case is aggravated still further for trade involving developing countries, which generally have the highest risk ratings. In a financial crisis, where general market risk is heightened anyway, the impact is multiplied. Thus Basel II may raise the cost of trade finance to such a degree that they restrict their supply of it, or offer it only at prices which are not likely to clear demand. It should be noted, however, that only developed country banks have implemented Basel II and even with those banks, substantial discretions exist which allow national regulators to apply the rules flexibly, particularly to lower the capital requirements for short-term exposures like trade finance (D'Hulster & Stephanou, 2009).

Virtually all of the market failures discussed above derive from the severe crisis of confidence affecting markets, leading to greater uncertainty, recalibration of risks, and changed lending behavior. Such a problem of confidence is generally a transitory phenomenon. Markets are already undergoing an adjustment process in terms of the view that risk is assessed and treated. In any adjustment it is likely that markets will overshoot the equilibrium for a time. In this case, the result is that where markets may have systematically underestimated risk in recent years, they may well be overestimating it in the short term, before settling in to a longer-term equilibrium. In this process of adjustment, there is reason to believe that trade finance is being hit particularly severely. Although the problem is a transitory one, it has real costs, for trading companies and for the economy more widely. There may be a case for government intervention that can speed up the adjustment process or that compensates the short-term losers.

Two final rationales for intervention in support of trade finance lie in the potential multiplier effects inherent in it. The first of these relates to the importance of credit chains and the propagation effects of these chains. In the face of a demand or liquidity shock – either at the macro or sectoral level – inter-firm credit chains act as a contagion, transmitting the shock quickly across the supply chain. Because of the strong interaction effect between bank-intermediated credit and inter-firm credit, a banking sector liquidity shock not only reverberates down supply chains, but subsequently resonates back into the financial system as a result of increased levels of default (Escaith and Gonguet, 2009). Thus, trade finance may amplify and prolong the initial crisis. In the case of global production networks, these credit chains also concentrate the effects of an economic crisis on firms at the upstream end of the chain, which tend to be commodity suppliers in developing countries. As intermediate suppliers experience delays in receiving payment from end customers in developed countries, they seek to extend payment periods down the chain, with the result that the upstream supplier experiences the greatest liquidity crunch. And the negative feedback loop between the banking system and supply chain is greatest in open economies, which are integrated in global production networks (Escaith and Gonguet, 2009). At the same time, an easing of the shock (e.g. through the injection of liquidity or a demand stimulus) can also spread quickly across the chain. But as no individual seller is likely to fully take into account the cross-supply chain gains (including demand as well as liquidity gains) of extending credit, there may be an insufficient provision of inter-firm trade credit along a supply chain.

Second, the complementary nature of trade finance and other forms of firm financing (e.g., investment and working capital) suggests that intervention to support trade finance could have a multiplier effect. Ellingsen and Vlachos (1999) point out that because trade credit cannot easily be diverted from production, it actually reduces the likelihood of default on other forms of firm-level financing. Thus, interventions to increase the flow of trade finance may have the effect of reducing the cost of capital more generally, or at least of improving banks' liquidity positions.

6. What is the most appropriate approach for intervention to support trade finance in the current crisis?

What has been the experience with intervention?

The international community has had significant experience in dealing with financial crises, most recently as a result of the Asian crisis and further emerging markets crises in Latin America, Russia, and Turkey among others. As such, a wide range of policies, tools, and programs have been implemented to address problems in trade finance markets, targeted at specific issues such as liquidity, risk perception, and collective action.

Several important lessons can be drawn from the successes and failures of past interventions, as drawn from Allen (2003):

- Interventions to support trade finance must be accompanied by macro and structural reforms;
- Where the domestic banking sector is weak, interventions that rely on the sector for intermediation are likely to fail;
- The importance of targeting pre and post export liquidity; in the absence of this, there may be no trade transaction to finance ;
- The importance of timely implementation of initiatives, including winding them down when markets begin to normalize;
- Ensuring that interventions are designed so that they are used by the specific parties being targeted; and
- Ensuring that pricing is appropriate, balancing between the risks of moral hazard and failing to complete markets.

While the current economic crisis is still unfolding, a number of domestic and multilateral interventions have been launched (see Appendix 2). As part of the financial sector bailouts, national authorities started to intervene to provide blanket liquidity to banks and targeted trade credit lines and guarantees for exporters that have been cut from trade finance. For instance, in October 2008, Brazil’s Central Bank was one of the first to issue loans in an attempt to provide relief to exporters. Governments have also increased their support of ECAs to reflect substantial increases in demand in the wake of the drying up of credit from traditional sources.[17] However, the financial interventions did not always lead to the desired results, because banks were concerned about increased counterparty risk and remained cautious, with many preferring to use the injected liquidity to purchase government paper. Moreover, as noted above, as developed countries bailed out their banks, there has been political pressure to finance domestic transactions rather than provide trade finance that goes to developing countries.

Development institutions have taken actions to help ease access to trade finance. For example, in response to the financial crisis, the International Finance Corporation (IFC) has, among other actions, doubled its Global Trade Finance Program to $3 billion to facilitate trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets. To deal with the liquidity constraint, the IFC has also introduced a Global Trade Liquidity Program, which, in collaboration with official and private partners, is expected to provide up to $50 billion of trade liquidity support over the next three years. Regional development banks such as the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB) have also launched or expanded their trade finance programs to extend guarantee facilities to international banks confirming local banks’ L/Cs, with a focus on small transactions in low-income countries that have little access to international markets and no or low international ratings.

[17] Among those that have launched new programmes are: the US, Germany, France, the Nordic countries, Hong Kong, China, and Chile. These include some specific bilateral agreements to provide targeted funding through Exim banks, including US$20 billion between the US and China and US$3 billion between the US and South Korea.

10 principles for intervention to support trade finance in the current crisis

1. *Targeted interventions*

One clear lesson that has already emerged from this crisis is that any money flowing into the banks – unless it is properly ring-fenced and conditions are attached – is at risk of being used for recapitalization rather than lending. This can be overcome by asking the banks to set up special purpose vehicles for trade finance, which would be required to use the new liquidity/risk capacity for the sole purpose of trade finance with emerging markets.

2. *Holistic response*

Notwithstanding the need to target interventions to avoid moral hazard on the part of banks, it is also important to ensure that interventions to support trade finance do not occur in isolation. Without corresponding measures to address wider liquidity issues of banks and to stimulate lending for investment and working capital purposes, neither the banks nor their customers who participate in the trade finance market will be healthy enough to do so. Firms require access to working capital, at minimum in the form of pre- and post-export financing. And clear complementarities have been shown to exist in the banks' loan portfolios between trade finance and other forms of credit.

3. *Integration with existing institutions*

Most trade finance operates within fairly well-established institutional relationships using simple products, such as L/Cs. Effective interventions in past crises have generally worked within these existing market practices and documentation and did not seek to reinvent mechanisms or to apply unduly complicated documentation or practices. This is particularly important given the short-term nature of trade finance.

4. *Collective action*

The interdependencies in the financial system are more than ever demanding a coordinated effort to revive trade finance flows. This is of even greater importance due to the international, interbank nature of trade finance. In past crises, central banks of individual countries deposited funds in offshore banks in order to guarantee trade finance underwritten by their domestic banks (e.g. as the Indonesian Central Bank did during the 1997–98 Asian crisis). In this crisis, however, trade is too integrated and the contagion too widespread for such actions to be effective. Coordinating national interventions could send a powerful signal to market participants that could help restore confidence and eventually lower the overall cost of public intervention. When central banks lack the foreign exchange reserves to provide trade credit lines, other central bankers could offer currency swaps to help keep normal trade flows. The intervention of the U.S. Federal Reserve in support of Brazil and Mexico through currency swaps in late 2008 was a case in point. ECAs from developed countries could be further mobilized to provide short-term insurance, and lending when possible, for bilateral trade credits.

Coordination at the regional level can also be effective. For example, APEC established the Asia-Pacific Trade Insurance Network at the end of 2008 to facilitate regional trade. The international community appears to have recognized the importance of such coordination, and initiatives coming out of the G20 meeting in London have adhered to this approach.[18]

[18] At the April 2009 G20 meeting in London, leaders reached agreement to ensure $250 billion of support for trade finance. This was to come from programs launched by multilateral development banks (MDBs) as well as

5. *Addressing both risk and liquidity*

The current crisis requires interventions that address real liquidity constraints (for banks and firms) as well as those that perceived escalation of counterparty risk. This may involve a combination of ring-fenced funding to support trade finance loans as well partial guarantee programs – like the IFC's Global Trade Finance Program – which help offset the heightened risk premium in the current market, may be effective to catalyze trade finance lending.

6. *Target emerging markets but recognise the importance of developed market banks*

Looking only at what can be done in emerging markets to get trade finance moving will not generate a real impact, which is to get banks in the developed world to start lending again in support of trade. Without attention to international banks' involvement in trade finance and acknowledging their huge distribution power and networks as fundamental part of the global supply chain, initiatives which are devised to address the crisis may be too fragmented to have more than a marginal impact. In addition, traditional solutions which might aim to get money into the hands of the emerging market banks or corporates will have limited impact as the money will merely re-cycled to the developed market banks as they continue to deleverage. Any new risk capacity should be distributed by institutions having the necessary processing capacity and technical expertise. As such, financial institutions in developed markets will be key players.

7. *Promoting inter-firm credit*

For sectors and products highly integrated in a global supply chain, supply-chain finance solutions should remain a relatively stable source of working capital and thus financing. Corporations already use credit across multiple transaction types as part of daily operations. Since these credits are not intermediated through banks and their underlying risks are borne among party constituents (absent factoring and insurance), they should be more resilient to the credit crunch, at least to its initial direct effect. They will, however, remain vulnerable to the global economic and financial prospects.

In parallel, there is scope for financial institutions and enterprises to promote other sources of short-term financing. Factoring is a type of supplier financing that could be particularly suited to a heightened risk environment. Because factoring involves the outright purchase of invoices at a discount rather than the collateralization of a loan, the creditworthiness of the seller becomes less important in the decision process than the value of the seller's underlying assets. Hence, factoring could become an instrument of choice when firms in developing countries have difficulty accessing trade financing. While still a relatively small source of credit in emerging markets, the crisis could be an opportunity to expand factoring in both low-income and emerging countries.

8. *Level playing field in terms of risk weight*

As a result of Basel II, market dynamics, and domestic political pressures linked to bank bailouts, banks are increasingly going to give preference in their capital management processes and lending decisions to either the domestic customers or their customers with a favorable risk profile. One way to offset the risk handicap trade finance counterparties in emerging markets incur as a result of this is to provide partial risk guarantees from a AAA-

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additional funds from national governments to support domestic banks and ECAs. G20 leaders also asked their regulators to make use of available flexibility in capital requirements for trade finance under Basel II.

rated institutions, along the lines of the programs offered by the MDBs. In the short term at least, it may also be helpful to promote continued flexibility in the implementation of Basel II risk weighting in order to give some relief to trade finance.

9. <u>Improving transparency</u>

It is clear that Basel II rules on the treatment of trade finance have resulted in a somewhat unfavorable treatment of this asset class as compared to other types of business lines. However it is also clear that the lack of availability of loss data for trade finance transactions as well as the 'one size fits all' approach by participants that all trade is low risk, is a major factor in this problem. This can only be remedied by a concerted effort on the part of all the major trade finance banks to collaborate in the collation of default and loss data so that appropriate relief can be argued with regulators and BIS. The creation of a 'Berne Union' of banks, which allows regular sharing of such data confidentially, could be a potential long-term solution. In inter-firm credit markets, extending 'public credit registers' and voluntary exchange mechanisms to developing countries, where these systems are often still being designed, and promoting the sharing of this information across trading countries could be another solution. By acquiring information about repayment history of the customer across a range of suppliers, the seller firm may increase the information on which to base its credit extension decision

10. <u>Avoiding moral hazards and wasteful subsidies</u>

Achieving the desired aims of stimulating greater trade finance lending is a significant enough challenge. Doing so without creating substantial moral hazards or subsidizing ”winners” is an even greater one. This challenge can be partly addressed through targeted programs that restrict access to banks and firms who really need them. However, experience has shown that achieving this often results in complicated programs that end up being too cumbersome and costly to be taken up in the market. Among the practices which have been shown to be effective in limiting moral hazards and wasteful subsidies are limiting the timeframes of programs to avoid crowding out commercial banks, and sharing rather than fully underwriting risk:

- *Limiting timeframe*: programs should stay in the market only as long as needed and avoid crowing out commercial banks and displacing private activities; identifying triggers for when the market is returning to normal (e.g., the evolution of credit spreads) and planning a 'soft exit' from the market is critical.

- *'Market rate' loans and shared risk*: Sharing rather than fully underwriting risk is preferable to avoid moral hazard on the part of banks. Similarly offering loans at a reasonable market rate (to the degree the issue is one of supply rather than price per se) helps avoid adverse selection in loans.

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APPENDIX 1: Overview of trade finance products

Category	Product	Description
Inter-firm / supply chain financing	Open account	• Contract is settled between importer and exporter without third party security or risk management arrangements, either directly or (most commonly) through transfers between their banks; one party (normally the exporter) extends credit by way of accepting payment after a certain (usually 30-90 days)
'Traditional' bank financing	Investment capital	• Medium term finance for investment in the means of production (e.g. machinery)
	Working capital	• Short-term finance provided to cover ongoing costs (addressing mismatch in timing between cash receipts and costs incurred) including payment of suppliers, production, transport costs, etc.; also used to cover risks of (or real) delays in payments, effects of currency fluctuations, etc.
	Pre-export finance	• Similar to working capital but bank takes a security interest in the goods being shipped and a right to receive payment for those goods directly from the importer; typically used for commodity production.
Payment mechanisms and liquidity	Letter of credit-usance	• Provided by importer's bank to exporter's bank; when exporter fulfils L/C conditions the relevant documents of proof are submitted to exporter's bank who submits them to importer's bank, who remits funds to exporter's bank which then pays exporter (importer subsequently remits funds to importer's bank). • This is designed to mitigate the counterparty risk inherent in open account transactions.
	Letter of credit-usance	• Operates similarly to L/C – sight but is designed for contracts where payment by importer is made in instalments after delivery.
	Supplier credit	• Extended or deferred payment terms offered by the supplier to the buyer, but typically linked with bank financing to enable exporter to receive cash on delivery (e.g. factoring)
	Buyer credit	• Term financing provided to finance cash payments due to supplier
	Countertrade	• Addresses liquidity (in particular access to foreign exchange, and so particularly relevant in emerging economies) by promoting two-way trade of equivalent value merchandise (e.g. barter, buy-back, counterpurchase)
	Factoring and forfaiting	• Factoring is a financial service offered that purchases an exporter's invoices or accounts receivable at a discount and assumes the risk of non-payment; addresses both liquidity and risk mitigation • Forfaiting is similar to factoring but typically involves medium-term accounts receivables for exporters of capital goods or commodities with long credit periods.
Risk management	Advance payment guarantees	• Security provided to importer when exporter requires mobilisation payment; this is usually a matching amount callable on demand.
	Performance	• Security provided to importer (normally in case of capital

Category	Product	Description
	bonds	goods export), callable in the event of exporter’s failure to perform (compensates for costs of finance, re-bidding, etc.)
	Refund guarantees	• Security provided to importer when importer is required to make stage payments during manufacturing by exporter (normally in case of large capital goods export), callable in the event of non-delivery of goods.
	Hedging	• Security (e.g. through a financial instrument issued by a bank) to offset market (rather than counterparty) risks, including fluctuations in exchange rates, interest rates, and commodity prices.
Export credit insurance / guarantees	Export credit insurance	• Insures exporters against a range of risks including: non-payment, exchange rate fluctuations, political risk, etc.; Can be used to securitize other forms of trade and non-trade finance from banks
	Export credit guarantees	• Instruments to protect banks providing trade finance; facilitates the degree to which banks can offer trade finance products (e.g. to SMEs without sufficient export track records)

APPENDIX 2: Overview of trade finance measures taken by governments to mitigate the impact of the trade finance crisis, as of July 2009

Recent trade finance measures

Governments are taking measures to make trade finance more accessible and affordable and also to support industries through potentially trade-distorting measures. With the liquidity crunch, international traders are requiring more secured means of payments than open accounts, putting extra demand for documented transactions (e.g., L/Cs) and guarantees. SMEs in developing countries are particularly challenged in coping with the rapidly changing risk landscape.

Summary Table

Country	Trade Finance Measures
Argentina	√
Australia	√
Brazil	√
Cambodia	√
Canada	√
China	√
The Czech Republic	√
Ecuador	√
EU	√
France	√
Finland	√
Germany	√
Italy	√
Netherlands	√
Poland	√
Portugal	√
Spain	√
Sweden	√
UK	√
Hong Kong	√
Hungary	√
Indonesia	√
India	√
Israel	√
Japan	√
Kenya	√
New Zealand	√
Norway	√
Pakistan	√
Serbia	√
South Korea	√
Switzerland	√
Taiwan	√
Thailand	√
Turkey	√
United States of America	√
Ukraine	√
Vietnam	√
ASEAN	√
ADB	√
AfDB	√
African Export-Import Bank	√
EBRD	√
G20	√
IDB	√
Islamic Development Bank	√
World Bank Group	√
IMF	√

Note: Trade finance includes loans and guarantees, forex allocations, subsidies/government financial support, tax reductions and rebates.

Country	Trade Finance Measures
Argentina	03/2009 **Action**: introduce new facility that would allow the central bank to offer repurchasing-agreement contracts in dollar to allow bank use their foreign-currency deposit. It is expected that $4 billion in trade finance would be available as a result of the operation
Australia	Source: Berne Union, Compiled in May 2009 **Action:** EFIC Australia **(**Export Finance & Insurance Corporation) expanded its capacity by including A$200m contingent (callable) capital in its capital adequacy determination, resulting in an additional A$1,250m of risk weighted assets which can underwrite Commercial Account. - Increased direct loan activities, including lending to banks to on-lend overseas, loans to corporations with export contracts or oversea investment plans, and lending to domestic projects with export focus. -Supporting trade backed by L/Cs through our bank guarantee facilities. -Broadening working capital guarantee to banks for their exporting SME clients. -Pursuing Reciprocal Reinsurance Agreements with regional ECAs, i.e. within the Asia-Pacific Insurance Network.
Brazil	10/20/2008: **Action**: Brazil's central bank issued $1.62bn (£940m) in six-month loans on Monday in an attempt to provide relief to exporters.
	12/03/2008: **Action**: The Central Bank sold $1.96 billion on offer in a dollar repurchase agreement auction aimed at increasing trade finance lines that have been squeezed by the global credit crisis. The bank sold the repos at 2.382 per dollar and will buy them back on Jan. 16, when participating banks provide guarantees that they used the funds to extend trade financing to exporters.
	02/09/2009 **Plan**: Brazil's central bank will offer up to $1 billion in dollar repurchase agreements in an auction aimed at increasing trade finance lines squeezed by the global credit crunch.
	05/29/2009 **Plan:** Ministry of Development, Industry and Foreign Trade and the Brazilian Development Bank (BNDES) are planning to establish a credit agency for exports - the Brazilian Eximbank- that would provide guarantees, insurance and export financing.
Cambodia	05/17/2009 **Plan:** Cambodia announced plans launch of an export-import bank to stimulate trade and support small and medium-sized enterprises (SMEs), particularly focused on export industries such as commercial agriculture. The plan is backed by the Ministry of Commerce, in cooperation with the Ministry of Finance and the National Bank of Cambodia, as well as a number of international agencies including the UN Development Programme (UNDP). The government plans to conduct a feasibility study this year, and a budget for the bank could be ready by 2010 for possible launch in the same year. The feasibility study would be financed by the UNDP at an estimated cost of US$60,000 to $80,000. Officials have not determined the budget for the export-import bank.

Country	Trade Finance Measures
Canada	Source: Berne Union, Compiled in May 2009 **Action:** EDC Canada (Export Development Canada): The Government will enable EDC to undertake domestic financing and insurance for a two-year period to complement activities by Canada's banks. EDC has provided GM and Chrysler with short-term loans up to C$ 4bln, to provide targeted support to automotive parts manufacturers. The Government has injected additional capital to EDC Canada. The following measures will still require legislative changes and Parliamentary approval: (i) Authorized Capital Limit: from CAD 1.5bln to CAD 3bln; (ii) Contingent Liability Limit: from CAD 30bin to CAD 45bln; (iii) Canada Account portfolio: from CAD 13bin to CAD 20bln.
China	12/24/2008: **Plan:** Exporters will be able to increase their advances on foreign-currency payments to 25 percent from the current 10 percent, Importers' quota for deferred foreign-currency payments also rose to 25 percent from 10 percent.
	01/01/2009: **Plan:** HK will seek legislative approval by late January for the government to guarantee banks' issuance of $12.9 billion worth of letters of credit for exports.
	02/01/2009 **Action**: Suzhou Industrial Park provided a special guarantee fund of 50 million yuan in the support of processing trade in surrounding areas of SIP
	02/19/2009: **Action**: State Administration of Foreign Exchange (SAFE) will encourage trade credit and cross-border financing, and take steps to match these actions with proper risk management
	12/15/2008 **Action: Hong Kong**: Under a time-limited $100 billion Special Loan Guarantee Scheme, the maximum amount of loan that each enterprise may obtain is $6 million, within which $3 million can be used as a revolving credit line such as commercial overdraft and letter of credit. All companies except listed companies may apply.
	03/12/2009 **Action:** Hong Kong Export Credit Insurance Corporation has introduced a series of measures to strengthen its support for SMEs during the current financial turmoil. The key ones are as follows: o Higher insurance cover for exports o Higher insurance cover for emerging markets o Annual Policy Fee Waiver o Expediting the processing of small credit limit applications o Free credit checks
	04/08/2009 **Action:** China will support the financing of global trade by buying private bonds of the International Finance Corporation.
	05/27/2008 **Action: According to results in a cabinet meeting, China will boost trade finance with plans to provide** US$84 billion of export-credit insurance and US$10 billion of buyer's credit for exports in 2009.
	06/17/2009 **Action:** The Export-Import Bank of **China and the Russian Bank for Foreign Trade** signed a US$700 million framework loan agreement. China Exim Bank is one of China's policy banks, while the Russian bank is 77.5% owned by the government.
	06/19/2009 **Announcement:** The Bank of China, China's third largest state-owned commercial bank, announced that it will expand services in Latin America through a new deal with the **Inter-American Development Bank (IDB).** The deal includes increased support for infrastructure and funding for trade finance that will support bilateral trade (China is the largest trading partner for Latin America; bilateral trade rose 40% to US$143.3 billion).
	06/24/2009 **China'**s State Council released a series of preferential policies, including plans to raise China's export credit insurance coverage to US$84 billion in short-term export credit insurance. China's export credit insurance coverage is expected to hit 10% in 2009, compared to 3% in 2008.

Country	Trade Finance Measures
The Czech Republic	Source: Berne Union, Compiled in May 2009 **Action:** EGAP, the Czech Export Guarantee and Insurance Corporation (joint-stock company owned by the Czech Government), **r**aised its overall capacity limit from CZK 120bln to CZK 150 bln,, expanded and broadened its services to more companies, and is **c**onsidering insurance cover to OECD and EU countries.
Ecuador	11/21/2008: **Action**: a help package for the external sector, including measures to facilitate easier access to credit for the export sector, tariff increases, and important restrictions
EU	01/22/2009: **Plan**: The European Bank for Reconstruction and Development plans to increase its trade finance facility to 1.5 billion of euro from 800 million
France	12/16/2008: **Action**: Announcement of the provision of credit guarantees to carmakers under the provision that production will not be shifted.
	05/26/2009 **Plan:** The French government plans to sign a new €30 million trade finance deal agreement with South Africa's Industrial Development Corporation that will establish a facility to finance trade with South African firms.
	Source: Berne Union, Compiled in May 2009 **Action:** France's Export Insurance Agency -COFACE France (Compagnie Frangaise d'Assurance pour le Commerce Exterieur)- announced that the Government has put in place schemes to boost banking liquidity (notably SFEF) for export credits. COFACE is also providing better cover of export contract during the manufacturing period notably for SMEs
Finland	01/27/2009: **Action**: Finland tripled export credits to 3.7 billion Euros.
	Source: Berne Union, Compiled in May 2009 **Plan:** FINNVERA Finland, a financing company owned by the Government, announced that its **s**tatutory exposure limit was raised to EUR 12.5bin. The Government has decided to provide FINNVERA with funding/refinancing scheme for export credits, the amount for this scheme is up to EUR 3.7bln.
Germany	01/12/2009: **Plan**: discussing the final details for the approval of a 100 billion Germany Fund of credit guarantees to help cash-starved businesses.
	Source: Berne Union, Compiled in May 2009 **Action:** Germany's export credit company, EH GERMANY **(**EULER HERMES Kreditversicherungs-AG), increased its Statutory Maximum Exposure Limit to EUR 117bln. EH Germany is also offering cover to banks for the risks arising from a L/C confirmation, simplified the **r**equirements for an assignment of covered receivables. EH Germany has also announced that an isolated Counter-Guarantee combined with the Contract Bond Cover but even without Suppliers Credit Cover can be obtained. The maximum total amount of Counter-Guarantee per exporter has been raised from EUR 80bIn to EUR 300bin until the end of 2010.
Hong Kong	Source: Berne Union, Compiled in May 2009 **Action:** Hong Kong Export Credit Insurance Corporatino (HKEC) has doubled its Statutory Maximum Liability from HK$ 15bln to HK$ 30bln. HKEC is also offering free credit checks and risk consultancy service for an exporter. HKEC has waived annual policy fees for one year and introduced a deductible mechanism for sharing risks for SMEs
Hungary	Source: Berne Union, Compiled in May 2009 **Action:** The Hungarian Export Credit Insurance Ltd (MEHIB Hungary) announced that its annual liability limit fixed in the State Budget on cover commitments has been increased from HUF350b1n to HUF 450bln in 2009. MEHIB also announced **t**emporary increase in the insurance coverage of risks related to MLT export credits from 95% to 100% upon client's request.
Indonesia	12/17/2008: **Action**: issued a trade financing policy that would guarantee exporters from possible financing failures, along with income tax reductions for certain business sectors.

Country	Trade Finance Measures
India	11/17/2008 **Action**: The RBI more than doubled the funds it makes available for banks to refinance export credit at favorable interest rates to Rs220bn ($4.5bn, €3.8bn, £3bn).
	11/19/2008: **Plan**: The government is firming up a proposal to expand the resource base of the Export Import Bank of India that provides credit to traders. The government is also considering providing a special line of credit for the ExIm Bank. These efforts are aimed at generating nearly $10 billion which the bank can deploy for lending to the export sector
	02/05/2009 **Action:** Reserve Bank of India has announced that it would raise interest rates for export credit. Banks' costs of raising funds abroad have increased because of which they are finding it difficult to extend credit within the current interest rate ceiling.
	02/06/2009 **Action:** RBI further raised the ceiling on export credit in foreign currency to Libor (London inter-bank offer rate) plus 350 basis points. However, banks will not levy any other charges, like management fee, service charge, etc. By increasing the ceiling over Libor that banks can charge from exporters, RBI has ensured that banks do not reject forex credit applications of exporters simply due to the fact that such loans could be economically unviable due to high cost of financing of foreign currency funds. As a result, while exporters will have to pay higher interest, they will also be able to get higher amount of credit
	Source: Berne Union, Compiled in May 2009) **Action**: ECGC India **(**Export Credit Guarantee Corporation of India Ltd) announced that an additional US$78 mil made available under the National Export Insurance Account for additional benefit to the exporters and banks holding cover from ECGC. ECGC India also introduced Domestic Credit Insurance policy for export
	05/21/09 **Plan:** Export Import Bank of India plans to raise about 200 billion rupees in 2009-2010; 60 billion rupees would be raised through foreign currency debt and the remaining would be rupee debt. Market borrowings constitute 81 percent of the total resources of Exim Bank, which provides funding support to exporters and importers. The ExIm Bank expects loan assets to rise 20% in 2009/10.
	06/24/2009 **Plan:** The Export-Import Bank of India plans to establish a special fund for commercialization of rural technologies for export market.
	07/01/2009 **Action**: India's ExIm Bank has issued US$300 million worth of loan facilities to the Maldivian government, with the objective to finance Indian exports of goods and services.
	07/08/2009 **Action:** India's Ministry of Finance has approved an extension of tax holiday for one more year for export oriented units (EOUs), software technology parks (STPs) and electronic hardware technology parks (EHTPs), and extension of the interest subvention scheme until March 2010. The interest subvention on pre-shipment credit covers seven sectors, including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products as also SME exporters. The scheme was originally scheduled to end in September 2009. In addition, the adjustment assistance scheme of the Export Credit Guarantee Corporation (ECGC), which covers 95 percent of the badly hit sectors, was extended till March 2010. The government had earlier announced Rs. 350 crore scheme for the Export Credit Guarantee Corporation (ECGC), which expires on June 30. ECGC provides a range of credit risk insurance covers to exporters against loss in export of goods and services and guarantees to banks and financial institutions.
Israel	01/29/2009 **Action**: Bank of Israel is operating an expansionary interest-rate policy, lowering rates to 1 percent; called upon the government to ease criteria for receiving insurance coverage for export-credit transactions offered by Ashra, the Israel Export Insurance Corp. Ltd., which is fully owned by the government.
	Source: Berne Union, Compiled in May 2009 **Action:** The Israel Export Insurance Corp. Ltd, a government-owned entity, announced that total limits for insurance were increased by 42%, that it will provide short-term coverage on a case by case basis to fill in market gaps in export insurance, and it has established a new governmental exporter's fund to provide credit in the total size of $125mln.
Italy	01/29/2009: **Action**: Italian central bank (Banca d'Italia) has just created a Collateralised Interbank Market, where the Banca d'Italia will serve as the universal counterparty, guaranteeing settlement in case of default.

Country	Trade Finance Measures
Japan	11/14/2008: **Plan**: Japan has proposed an Asia-Pacific trade insurance network for reinsurance cooperation among export credit agencies in the region to facilitate trade and investment flows during the current financial crisis 01/31/2009: **Action**: Japan will hand out $17 billion in development aid to other Asian countries to help them face the global financial crisis
	03/03/2009 **Action:** Japanese government will dip into $1 trillion worth of foreign currency reserves to lend dollars to Toyota, Sony and other struggling exporters.
	03/31/2009 **Action:** The Japan Bank for International Cooperation plans to provide $6 billion for developing countries, and the Nippon Export and Investment Insurance will supply an additional $16 billion in trade insurance coverage.
	Source: Berne Union, Compiled in May 2009 **Action:** Nippon Export Investment Insurance (NEXI Japan) is currently facilitating intra- and extra-regional trade and investment flows within the Asia-Pacific Trade Insurance Network, facilitating the assignment of export receivables with NEXI cover to banks, providing cover for bank loans to support global supply chains, exempted fees for SMEs on credit assessment to cover foreign buyers and providing cover for loans to the banks in developing countries for trade finance.
	06/16/2009 ***Announcement**: IFC and Bank of Bank of Tokyo-Mitsubishi jointly agreed to provide a US$60 million trade financing line for the Export-Import Bank of India to assist small businesses hit by the sharp drop in global trade. This program falls under the IFC's Export Credit Agency initiative that started in May, and aims to provide credit to an export credit agency to help finance trade flows hurt by the scarcity of credit.*
Kenya	*05/31/2009* ***Plan:** Kenya's the National Economic and Social Council (NESC), has recommended the creation of an Export and Import (Exim) Bank. Kenyan Prime Minister Raila Odinga announced that the government had agreed to fast-track the formation of the Exim Bank to facilitate trade. The proposed Exim Bank would provide long-term trade and investment finance for investments.*
Korea	Source: Berne Union, Compiled in May 2009 **Action:** Korea Export Insurance Corporation (KEIC) has raised the total limit of export insurance contracts by KRW 40tln to reach KRW170tln for 2009. KEIC is reviewing a new product called Export Receivables Insurance, which provides cover for non-recovery risk to banks purchasing exporter's receivables
	07/08/2009 **Action:** Export-Import Bank of Korea (Eximbank) has issued $1.5 billion in dollar-denominated bonds to provide trade financing for local exporters. The bonds carry an interest rate of 5.999 percent or 2.97 percent above the LIBOR and due in five and half years. The objective of this action is to improve foreign-currency funding conditions for local financial institutions and local firms.
Netherlands	01/16/2009 **Action**: For exports to east European states such as Russia, Kazakhstan and the Baltic states, where commercial export loan insurance is no longer available, the government will issue risk cover so that trade remains possible. It will also guarantee 50% of company loans up to EUR50 million "to ensure that businesses have access to sufficient capital to maintain production and investments."
	Source: Berne Union, Compiled in May 2009 **Action:** EKF Denmark **(**Eksport Kredit Fonden), the export credit insurance provider backed by the Ministry of Economic and Business Affairs, announced that reinsurance agreements with private credit insurers have been conclude and that a funding scheme sponsored by the Government is under implementation.
New Zealand	02/04/2009 **Action**: New Zealand Export Credit Office's (NZECO) will provide short-term trade credit guarantee to exporters and their banks where overseas buyers are offered repayment terms of less than 360 days to ensure that exporters have the means to continue to accept orders that in the current environment might otherwise not occur.

Country	Trade Finance Measures
	06/24/2009 **Announcement:** The New Zealand government has announced that it is extending its short-term trade credit insurance guarantee for exporters by NZD100 million. The goal of this expansion is to help exporters to maintain cash flow amid shortages of short-term and long-term credit and trade credit insurance. The credit extension scheme follows an initial NZD50 million facility for the guarantee, which is almost completely allocated.
	07/01/2009 **Action:** The Government of New Zealand has extended trade guarantees for New Zealand companies exporting to the United States. New Zealand's Export Credit Office will increase its United States surety bond program from $NZ75 million to $NZ100 million to underwrite exports to the US.
Norway	11/27/2008 **Action**: The Norwegian state would loan up to 50 billion kroner (US$ 7.2 bln) to cash-strapped export credit institution Eksportfinans.
	Source: Berne Union, Compiled in May 2009 **Action:** GIEK Norway **(**Garanti-Instituftet for Eksportkreditt), that guarantees Norwegian companies' export credits on behalf of The Norwegian Government., has raised the maximum exposure limits for guarantee schemes operated by GIEK from NOK 50b1n to 11Obin. In addition, its financial institution "Eksportfinans" will lend banks NOK 50bln over the next two years to be used for medium to long-term export credits.
Pakistan	11/18/2008: **Plan**: The Central Bank will provide 100% refinancing to banks against export finance provided by them to exporters under Part I of the Export Finance Scheme (EFS). Earlier, the State Bank was providing export finance to the banks up to 70 percent. Export finance already provided by banks under Part I of EFS from own sources at the ratio of 30 percent and outstanding as on Oct. 31, 2008 will also be refinanced by the State Bank for the remaining period of individual loans
	06/12/2009 **Announcement:** The IFC, Habib Bank Limited (HBL) and Citibank (Citi) announced that their joint execution of a structured trade finance deal to support the import of equipment for a new power generation plant **in Pakistan**. IFC and Citi worked together to structure a deal with coverage of up to Ђ73 million (PKR 8 Billion) to a Pakistani power company. HBL, Pakistan's largest privately owned bank, established the original letter of credit, which was confirmed by Citi utilizing IFC's Global Trade Finance program for 50% risk coverage.
Poland	Source: Berne Union, Compiled in May 2009 **Action:** Poland's Export Credit Insurance Corporation (**KUKE Poland**), a joint-stock company announced that it is extending insurance guarantees for receivables payment referred to L/C for banks as beneficiaries of guarantees
Portugal	12/03/2008 **Action**: 200 million euro credit line for auto and car parts exporters.
	01/09/2009 **Action**: The Portuguese government has approved export credit support mechanisms worth 2 billion Euros to rejuvenate economic activity and exports. The sum will be divided equally to support sales to OECD and non-OECD markets.
	Source: Berne Union, Compiled in May 2009 **Action:** Credit Insurance Provider, COSEC Portugal **(**Companhia de Seguro de Creditos, S.A.)**,** established a ceiling of short-term credit liabilities for OECD and emerging markets in the amount of EUR 2bln. For OECD countries, there will be an additional coverage encompassing risk sharing among credit insurers. COSEC also increased the percentage of coverage up to 98%.
Serbia	01/30/2009 **Action:** The government earmarks RSD 122 bn for boosting production, export in 2009. Exporters will have priority when the funds are allocated and will be granted loans for specific export projects.
South Korea	11/4/2008: **Plan**: The Ministry of Finance and Strategy will provide $6 billion to companies who seek the export finance and the payment for the import of commodity. The ministry will spare $6 billion from $20 billion that it decided to lend via competitive bid with no securities.

Country	Trade Finance Measures
	12/04/2008: **Plan**: raise the guarantee ratio and guarantee limit for the export fund of small- and medium-sized enterprises, respectively up to 100 percent and 10 billion won.
	03/10/2009 **Plan:** Export-Import Bank of Korea (KEXIM) planned to double the amount of trade financing support it provides to local SMEs. KEXIM said in a statement it would provide 13 trillion won ($8.44 billion) in trade financing for smaller local trading companies, mostly exporters, in 2009, double the 6.5 trillion won provided last year.
	03/19/2009 **Plan:** State-run Export-Import Bank of Korea plans to provide 4 trillion won to help local ship parts makers ease liquidity problems.
	07/01/2009 **Plan**: Export-Import Bank of Korea (Eximbank) plans to launch a ``carbon fund'' worth 100 billion won and continue to extend credits to SMEs in the second half of the year. The Eximbank plans to extend credits totaling 53 trillion won this year, up 6 trillion won from the initial 47 trillion won. From January to June 2009, it provided 30 trillion won in loans.
Switzerland	Source: Berne Union, Compiled in May 2009 **Action:** Switzerland's Export Risk Insurance (SERV Switzerland), a government-owned entity, announced that it has increased the percentage of cover of the supplier credit Insurance from 85% to 95% for the commercial risk. SERV will also make use of an escape-clause to cover short-term business to OECD/EU countries. SERV also improved its product portfolio to include working capital finance insurance, refinancing guarantees and L/C guarantees.
Taiwan	12/25/2008: **Plan**: Taiwan cabinet approved a 8.53 bln TWD export stimulus program that will extend until the end of 2012 will help local exporters garner at least 540 bln twd of overseas contracts a year.
Thailand	11/14/2008: **Plan**: The ExIm Bank will seek 12.7 billion baht in funds from the government to help support a new soft-loan program for exporters. The bank would also petition the Finance Ministry for funds to support low-interest loans for exporters.
	02/11/2009 **Action**: The Council of Economic Ministers endorsed the Export-Import Bank of Thailand and the Small Business Credit Guarantee Corporation to raise capital worth a combined 8 billion baht to enable them to extend more credit to both exporters and SMEs' entrepreneurs worth a combined around 200 billion baht to further turning around local economy.
	06/112009 **Action:** Six Thai state-owned banks will receive 20.5 billion baht from the Thai government to fund more assistance for exports, small business, and housing and farm sectors. The plan was approved by the country's economic ministers and will begin in July if the government's executive decree to procure 400 billion baht in loans wins legislative approval on June 15. The fund would then be used to raise the capital of the Export-Import Bank of Thailand (Exim Bank), Small Business Credit Guarantee Corp, the SME Bank, the Government Housing Bank, the Bank for Agriculture & Agricultural Co-operatives and the Islamic Bank.
	06/24/2009 **Action:** The Export-Import Bank of Thailand (Exim) signed a reinsurance agreement with Nippon Export and Investment Insurance (Nexi) to expand export credit insurance services for Japanese-affiliated enterprises and Thai-Japanese joint ventures. Exim and Nexi would roughly share equal risk arising from export credit insurance contracts that Exim has with its clients, while Nexi would act as reinsurer. In the event of importers defaulting on payments due to commercial or political risk, Exim will pay compensation of up to 90% of the loss incurred to exporters based in Thailand.
Turkey	Source: Berne Union, Compiled in May 2009 **Action:** Turkey's Export-Import Bank announced that it has received THB5bln in capital increase from the Ministry of Finance. Moreover, additional Central Bank allocations have been provided for rediscounting of export receivables, additional treasury allocation for SME finance and enhanced treasury backing for political risk losses.

Country	Trade Finance Measures
US	12/08/2008: **Action**: The US ExIm Bank i) increased access to direct lending and working capital loan guarantees; ii) a provision that allows companies that produce goods or services sold to U.S. companies and subsequently exported to apply for working capital loans guaranteed by the ExIm Bank; iii) increase from 10 to 100 percent the amount of a working capital loan guarantee available for these indirect exporters; iv) covering warranty letters of credit up to 20 percent of the loan amount or $1.5 million, whichever is lower, for a term of 12 months. This is a tripling of the previous ceiling of $500,000.
	12/05/2008: **Action**: US and China Announce $20 Billion in Finance Facilities that will create up to $38 billion in annual trade finance to assist global trade
	03/03/2009 **Action:** Ex-Im Bank , which traditionally insures only loans made by private banks, is lending money directly to non-American buyers of American products, exercising a legal authority that it has but almost never uses.
	03/11/2009 **Plan:** The United States is working with the World Bank and other countries to boost trade financing; specific amount will be determined later.
	04/08/2009 **Action:** The US Ex-Im Bank will grant four Angolan banks at least 120 million dollars in credit to cover the imports from the United States. The credit line will be granted to the African Investments Bank, Angola's Foment Bank, Angolan Savings and Credit Bank and Angola's Espirito Santo Bank.
	06/12/2009 **Action:** U.S. EXIM Bank has changed its stance towards financing exports of U.S. goods to Laos and Cambodia, by issuing memorandums that reversed the designation of Laos and Cambodia as "Marxist-Leninist countries" as defined under the 1945 Export-Import Bank Act. This policy shift will now allow U.S. companies exporting to these countries to apply for financing (working capital guarantees, export credit insurance and loan guarantees) through the ExIm Bank.
	06/17/2009 **Plan:** The U.S. EXIM Bank announced it could increase existing $120 million credit facility / loans to Angola aimed at boosting U.S. exports to the African nation.
	06/17/09 **Action:** The U.S. EXIM Bank has extended its Nigerian Bank Facility to October 31, 2009, so that the facility's annual expiration date will coincide with the availability of the most current financial information on the member banks. Ex-Im Bank's board of directors then plans to consider a 12-month extension of the facility prior to the Oct. 31 expiration date. The facility covering 14 Nigerian banks allows for expedited processing of short-and medium-term insurance and guarantee transactions, and long-term guarantees, supporting U.S. exports to Nigeria. In June 2008, Ex-Im Bank more than doubled the size of the facility to $1 billion to meet growing demand from member banks.
	Source: Berne Union, Compiled in May 2009 **Actions:** -U.S. EXIM Bank **c**reated a facility designed to support short-term L/C issued by Korean banks and confirmed by US Banks. -U.S. EXIM Bank is **c**onsidering offering direct loans through lenders to SMEs in need of working capital to produce goods for export on a case-by-case basis. Companies producing goods or services sold to U.S. companies and then exported are now eligible to apply for working capital loans guaranteed by EXIM Bank. -U.S. EXIM Bank is offering a reduction in the premium paid by SMEs under the short-term small business multi buyer exporter policy and the short-term small business environmental exports policy.
	06/24/2009 **Announcement:** U.S. Ex-Im Bank and the Federation of Indian Chambers of Commerce and Industry (FICCI) signed a Memorandum of Understanding (MOU) that signals their cooperation to boost U.S.-India cooperation in trade finance. The MOU calls on Ex-Im Bank and FICCI to exchange information on business opportunities for US exporters and Indian buyers, with a focus on export of high-quality US equipment, technology and services to Indian buyers.

Country	Trade Finance Measures
UK	06/06/2009: **Plan:** The UK's First Secretary of State and Lord President of the Council Lord Peter Mendelson have proposed to reform the Export Credit Guarantee Department (ECGD) to be more flexible and to extend more support to SME exporters of manufactured goods and services. The reforms may entail the agency to provide trade credit insurance to both exporters and domestic traders, replacing the Government's temporary £5bn trade credit insurance scheme set up in April 2009 to mitigate the collapse of supply from private insurers 06/08/2009: **Plan:** The Bank of England is proposing to extend its Asset Purchase Facility to high quality assets backed by trade receivables that provide working capital to businesses, to provide cash directly to businesses that cannot borrow in the capital markets. **Plan:** The Bank of England plans to launch the Supply Chain Finance Facility to provide working capital to companies.
	07/07/2009 **Action: The UK export credit agency, the Export Credits Guarantee Department (ECGD),** has decided to make available a limited amount of cover available for Iraq on a first-come-first-served basis from July 7, 2009. ECGD has not provided medium-term cover since before Iraq's invasion of Kuwait in 1990.
Ukraine	**07/01/2009 Action: The Export-Import Bank of Ukraine,** Ukreximbank, has grown by UAH 999.999 million, to UAH 8.354 billion, due to a new cabinet resolution. The funds were raised through the issuance of additional stocks, which were paid for by the Finance Ministry via government domestic loan bonds worth a total of UAH 1 billion
Vietnam	12/31/2008: **Plan**: apply a more flexible exchange rate to facilitate export activities. They will also apply financial policies, including tax reduction and exemption to assist enterprises
Asean **Japan** **China** **South Korea**	02/23/2009 **Action**: Asian nations will form a $120 billion pool of foreign-exchange reserves that can be used by countries to defend their currencies in an expansion of efforts to battle fallout from the global financial crisis.
ADB	04/01/2009 **Action:** The Asian Development Bank (ADB) has expanded its Trade Finance Facilitation Program (TFFP) to $1 billion, a move that could generate up to $15 billion in much-needed trade support by the end of 2013.
	07/06/2009 **Plan:** The **Asian Development Bank (ADB) and Citigroup (Citi)** have signed a "risk-sharing pact" to jointly provide over $1.5 billion through 2013 in trade finance to exporters and importers in Asia. ADB funds are based on the Trade Finance Facilitation Program, a program that offers loans and guarantees through international banks and developing member country banks to support trade. Transactions can range from short-term letters of credit to maturities of up to three years.
AfDB	03/04/2009 **Action:** AfDB established US$ 1 billion Trade Finance Initiative (TFI), which will be implemented in phases as the Bank strengthens its capacity in this regard. The Bank looks to launching, as a first phase of the TFI, a new line of credit for trade finance TI LOC of US$500 million which will enable commercial banks and development financing institutions in Africa use AfDB resources to help trade financing operations.
	07/01/2009 **Announcement:** The African Development Bank plans to provide African banks an additional US$500 million to finance trade; this follows AfDB's previous allocation of US$500 million in March to support trade finance. This second investment will go through the Global Trade Liquidity Program.

Country	Trade Finance Measures
African Export-Import Bank	06/21/2009 **Plan:** The African Export-Import Bank (Afrexim) announced that it has plans to expand operations in Ghana to facilitate intra-African trade and trade between the continent and rest of the world. The Bank had earlier provided a line of credit of US$40 million to Merchant Bank of Ghana and is currently providing another US$40 million for the development of Ghana's export sector.
IDB	10/13/2008: **Action**: The IDB has launched liquidity facilities for Latin America and the Caribbean, a new credit line worth $6 billion. The aim is for the funds to be made available to domestic firms via commercial banks that may face transitory difficulties in accessing foreign and inter-bank credit lines as a result of the financial crisis in the United States and Europe. In addition, the Andean Development Corporation (CAF) announced a liquidity facility of $1.5 billion and the Latin American Fund of Reserves (FLAR) offered $1.8 billion as part of its liquidity arrangements
	1/9/2009 **Action**: The IDB is increasing its Trade Finance Facilitation Program (TFFP) limit from $400 million to a maximum of $1 billion. It will also add loans to its current offering of guarantees. It will support non-dollar denominated trade finance transactions to address the growing demand of transactions denominated in other currencies, especially in Euros.
	06/19/2009 **Announcement:** The Bank of China, China's third largest state-owned commercial bank, announced that it will expand services in Latin America through a new deal with the **Inter-American Development Bank (IDB).** The deal includes increased support for infrastructure and funding for trade finance that will support bilateral trade (China is the largest trading partner for Latin America; bilateral trade rose 40% to US$143.3 billion).
G20	04/03/2009 **Action:** G20 countries will pledge $250-billion (U.S.) to assist trade finance over the next two years. The amount will be channeled through export-credit and investment agencies, and through international development banks such as the World Bank.
Islamic Development Bank	04/08/2009 **Action:** The Islamic Development Bank has signed a Mudaraba agreement with a newly-formed Islamic trade finance institution to manage a $1 billion fund to boost trade in Organization for Islamic Conference (OIC) member countries.
	06/9/2009 **Action:** **Albania** has joined as a member of the Islamic Development Bank's Corporation for the Insurance of Investment and Export Credit. With Oman also joining, the number of member countries will total 39 including 17 Arab countries, 13 African countries and nine from Asia and Europe. Membership allows exporters, banks and investors from other member countries, to cover risks related to their operations in Oman and Albania.
World Bank Group	11/11/2008: **Action**: i) The IFC plans to double its Global Trade Finance Program from US$1.5 billion to US$3.0 billion. The trade guarantees issued under the program will have an average tenor of six months, thereby supporting up to US$18 billion for short-term trade finance over the next three years. The expanded facility would benefit participating banks based in 66 countries, including some of the world's 78 poorest countries. The program offers banks partial or full guarantees covering the payment risk in trade related transactions. ii) The IFC plans to launch a Global Trade Liquidity Program Of $6-8 bln to address the liquidity constraint on global trade finance
	12/9/2008: **Action**: announced the creation of a $ 2 billion fast-track facility to speed up grants and long-term, interest-free loans to help the world's poorest countries cope with the impact of the global financial crisis. The facility would be based on strong country analysis focusing on (a) the impact of the financial crisis on household welfare, growth, capital flows, financial sector, trade finance, infrastructure development, employment, balance of payments, and government budget, financing, and debt sustainability; (b) government plans for policy response; and (c) financing needed to address the impacts while maintaining expenditures in key sectors, including the social sectors and infrastructure.

Country	Trade Finance Measures
	01/27/2009: **Action**: Armenia will receive at least $525 in fresh low-interest loans from 2009 through 2012 from WB. On top of that, it will get separate assistance from the bank's commercial arms, the International Finance Corporation and the Multilateral Investment Guarantee Agency, that could raise the total to $800 million.
	03/31/2009 **Action:** World Bank unveiled plans to launch a $50 billion fund to help finance trade flows.
	04/07/2009 **Action:** The Stanbic Banking Group has received $400 million from the International Finance Corporation (IFC) to support trade finance in 17 African countries, including Tanzania.
	06/15/2009 **Announcement:** Citigroup has announced a $1.25 billion funding tie-up with the IFC, as part of the partnership of a $50 billion Global Trade Liquidity Program. Citi will provide $750 million (60% of the financing) to banks in Asia, the Middle East, Africa and Latin America over a three-year period; IFC and other development organizations will invest up to $500 million in the transactions, with local banks extending trade financing to importers and exporters.
	06/16/2009 **Announcement:** IFC and Bank of Bank of Tokyo-Mitsubishi jointly agreed to provide a US$60 million trade financing line for the Export-Import Bank of India to assist small businesses hit by the sharp drop in global trade. This program falls under the IFC's Export Credit Agency initiative that started in May, and aims to provide credit to an export credit agency to help finance trade flows hurt by the scarcity of credit.
	06/12/2009 **Announcement:** The IFC, Habib Bank Limited (HBL) and Citibank (Citi) announced that their joint execution of a structured trade finance deal to support the import of equipment for a new power generation plant in Pakistan. IFC and Citi worked together to structure a deal with coverage of up to Ђ73 million (PKR 8 Billion) to a Pakistani power company. HBL, Pakistan's largest privately owned bank, established the original letter of credit, which was confirmed by Citi utilizing IFC's **Global Trade Finance program** for 50% risk coverage.
IMF	11/17/2008 **Action**: A 24-month stand-by loan of 12.3 billion euros ($15.7 billion) for Hungary A package worth about 12.9 billion euros for Ukraine
EBRD	12/10/2008: **Action**: EBRD disburses first factoring loan in Ukraine by lending to Ukreximbank. The bank signed a factoring finance facility with the EBRD Trade Facilitation Programme earlier this year of up to $10 million to finance sales by small and medium-sized producers, importers and traders across the country. Through factoring, Ukreximbank provides its corporate clients with an additional way to obtain trade finance without having to mortgage property. Factoring - the purchase, administration and collection of short-term accounts receivable by a financial intermediary - is a fast and flexible method of improving a company's cash flow.
	01/23/2009 **Action**: increase Trade Facilitation Program's budget from €800 million to €1.5 billion to boost trade with and within eastern Europe, Central Asia, Russia and Ukraine.
	02/27/2009 **Action**: committed 6 billion Euros to financial institutions and in trade finance for East and Central Europe